

No. 10/29/DPM

Jakarta, September 2, 2008

CIRCULAR LETTER

To

ALL COMMERCIAL BANKS

AND

NON-BANK CUSTODIAN INSTITUTIONS

IN INDONESIA

Subject : Procedures of Application, Reporting, and Supervision on Sub-Registry

As enacted in Bank Indonesia Regulation Number 10/2/PBI/2008 dated February 4, 2008, concerning Bank Indonesia - Scripless Securities Settlement System (State Gazette of the Republic of Indonesia Number 11 of 2008, Supplement to the State Gazette of the Republic of Indonesia Number 4809), Bank Indonesia conducts Securities Administration. The Securities Administration activities include ownership registration, clearing and settlement, and payment of coupon (interest) or yield and principal/nominal value of Securities. The Securities Administration are conducted under a two-tier system, comprising the Central Registry, namely Bank Indonesia, and the Sub-Registry, namely Bank and institution conducting custodial activities which meet requirements and approved by Bank Indonesia. The Central Registry administers Securities Account for Bank, Sub-Registry, and other parties holding Securities Account with Bank Indonesia - Scripless Securities Settlement System approved by Bank Indonesia, while the Sub-Registry administers Securities Account on behalf of customers. The Securities registration in Sub-Registry Securities Account in the Central Registry is registered globally (omnibus account), while the Securities registration by individual customer in Sub-Registry is under a system held by the Sub-Registry.

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In the efforts to conduct a secure, accurate, and reliable Securities Administration system, it is deemed necessary that Bank Indonesia as the Central Registry stipulates the mechanism of application, reporting, and supervision on Sub-Registry.

I. GENERAL PROVISIONS

Terminologies used in this Circular Letter are defined as follows.

1. Custodian is a party providing custody services of securities or other valuables related with securities and other services, including to receive dividend, interest, and other rights, securities transaction settlement, and to represent account holder which becomes customer as referred to in applicable Act concerning Capital Market.
2. Custodian Bank is a commercial bank which has been approved by the Indonesia Capital Market and Financial Institution Supervisory Agency (Bapepam-LK) to conduct business as a Custodian.
3. Depository and Settlement Institution, hereinafter to be referred to as LPP, is a party conducting central custodial activities of a Custodian Bank, securities company, and other parties as referred to in applicable Act concerning Capital Market.
4. Securities Company is a party conducting business as securities underwriter, securities broker, and/or investment manager as referred to in applicable Act concerning Capital Market.
5. Securities is a securities issued by Bank Indonesia, the Government, and/or other institutions, administered in the Bank Indonesia - Scripless Securities Settlement System.
6. Bank Indonesia - Scripless Securities Settlement System, hereinafter to be referred to as BI-SSSS, is a system that provides transaction facilities with Bank Indonesia including its administration and electronic securities administration, seamlessly interconnected among Participants, the Operator, and the BI-RTGS System.

7. Securities Administration is an activity including ownership registration, clearing and settlement, and payment of coupon (interest) or yield and nominal value of Securities.
8. BI-SSSS Operator, hereinafter to be referred to as Operator, is a party that manages BI-SSSS in conducting Transactions with Bank Indonesia and its administration and Securities Administration as well.
9. BI-SSSS Participant, hereinafter to be referred to as Participant, is a BI-SSSS user eligible and/or approved by Bank Indonesia to conduct Transactions with Bank Indonesia and/or Securities Administration.
10. Central Registry is Bank Indonesia which performs function in Securities Administration for Participants holding Securities Account with BI-SSSS.
11. Sub-Registry is a Bank or an institution conducting custodial activities which is eligible and approved by Bank Indonesia to perform functions as Securities administrator on behalf of customers.
12. Sub-Registry Management is the Board of Directors and the Board of Commissioners of Bank and institution conducting Sub-Registry activities.
13. Sub-Registry Administrator is an officer in charge of the implementation of Sub-Registry operations.

II. REQUIREMENTS FOR SUB-REGISTRY

Party eligible for approval as Sub-Registry is a Bank, LPP, and Securities Company conducting custodial activities and meeting the requirements as follows.

1. To be located in the jurisdiction of the Republic of Indonesia;
2. Is not being under a process of liquidation or bankruptcy;
3. To hold valid a business license from Bapepam-LK;
4. To have experience of no less than 3 (three) years in Securities

registration ...

registration activities and/or no less than 3 (three) years in Securities custody since obtaining the business license from Bapepam-LK;

5. To meet capital requirements as follows.
 - a. for Bank, hereinafter to be referred to as Custodian Bank, has to meet a Minimum Capital Requirement, hereinafter to be referred to as KPMM, based on applicable Bank Indonesia provisions;
 - b. for LPP and Securities Company, hereinafter to be referred to as Non-bank Custodian Institution, has to own a paid up capital of no less than Rp25,000,000,000.00 (twenty five billion Rupiah).
6. To have an integrated Securities registration system with and among branch offices held domestically;
7. To have a secure, accurate, and reliable Securities registration system without paper (scripless) by book-entry which at least may administer outright, repo, and collateralized transactions;
8. Sub-Registry Management and Sub-Registry Administrator is not included in List of Bad Debts and/or List of Failed Parties on Fit and Proper Test;
9. To have a separated operational unit especially designated to deal with custodial activities with professional management and staff in the area of Securities registration and/or custody;
10. Securities under registration and/or custody shall have reached a monthly average nominal value at least of Rp1.000.000.000.000,00 (one trillion Rupiah) within last 6 (six) months, comprising Securities which may not be traded in money and/or capital market.

III. PROCEDURES OF APPLICATION AND APPROVAL AS SUB-REGISTRY

1. Custodian meeting the requirements as referred to in point II may submit an application letter as the example presented in Appendix 1 to :

Bank Indonesia – Directorate of Monetary Management

Sjafruddin ...

Sjafruddin Prawiranegara Tower, 11th Floor

Jl. M.H. Thamrin No. 2

Jakarta 10350

2. The application letter as referred to in point 1 must be comprehensively enclosed with documents :
 - a. photocopy of letter of approval as a Custodian Bank or business license as a Custodian for Non-bank Custodian Institution issued by Bapepam-LK;
 - b. photocopy of company Statutes and its amendments;
 - c. photocopy of notary deed which contains the latest company management structure;
 - d. statement on the latest KPMM position for Custodian Bank or amount of paid up capital for Non-bank Custodian Institution;
 - e. statement on facility of an integrated Securities registration and deposit business network with and among branch offices held domestically;
 - f. photocopy of evidence of supervision result issued by independent auditor concerning the security of scripless securities registration system;
 - g. working experience or expertise of the Management and/or Administrator in Custodian's activities;
 - h. data of number and nominal value of Securities registration and/or custody transactions within last 6 (six) months; and
 - i. latest annual financial report audited by public accountant.
3. If the requisite documents have been comprehensively submitted, Bank Indonesia may be present at the prospective Sub-Registry location to verify the validity of the requirements stated in the documents submitted by the applicant.
4. Bank Indonesia shall notify the applicant of approval or disapproval to become a Sub-Registry no later than 30 (thirty) business days after

requisite ...

requisite documents have been comprehensively received by Bank Indonesia.

5. In the event of any incompleteness of the documents, Bank Indonesia shall notify the applicant by letter to complete the undelivered documents.
6. After being approved as a Sub-Registry, the party concerned shall be required to become a Participant complying with applicable provisions concerning the BI-SSSS.
7. If after a period of 3 (three) months after the application is approved the Sub-Registry has not become a Participant, the approval as a Sub-Registry shall be abrogated and if the party concerned wishes to become a Sub-Registry, it has to reapply together with a full set of the requisite documents to become Sub-Registry.

IV. SECURITIES ADMINISTRATION BY SUB-REGISTRY

In effort of Securities Administration, the Sub-Registry is required to implement its tasks, to report its activities, and to meet the requirements as a Sub-Registry continuously, with provisions as follows.

A. Tasks

1. To settle Securities transaction for and on behalf of customers;
2. To register Securities ownership and change of ownership on behalf of customers separately from Sub-Registry assets;
3. To maintain Securities Account other than for and on its own behalf, Management, and Administrator;
4. To submit Securities registration evidence to customers including, among other things, recent balance of Securities Account specifying each Securities series and change of Securities ownership registration, including registration of Securities under repo transaction and Securities pledged to other parties;
5. To submit the evidence of pledge registration for parties receiving the collateral;

6. To ...

6. To register Securities on issuance on behalf of customers;
7. To pay coupon (interest) or yield and principal/nominal value of Securities on maturity to the Securities holder referring to the registration in the Sub-Registry internal system;
8. To execute deduction and administration of tax on discount, capital gain, and coupon (interest) or yield of Securities by request of customers in compliance with applicable tax laws;
9. In the event of any collection of final Income Tax (PPh) on discount value, capital gain, and coupon (interest) or yield of Securities, the Sub-Registry shall pick up the final PPh collection evidence to Bank Indonesia - Central Registry, c.q. Monetary Management Transaction Settlement Division (PTPM Division);
10. To guarantee reliability of Securities ownership registration and reporting on behalf of all customers in accordance with the whole balance of Securities Account (omnibus account) in the Central Registry;
11. To settle the dispute on Securities ownership registration between the Sub-Registry and customers.
12. To fulfill the minimum amount of Securities ownership registration to a monthly average of Rp500,000,000,000.00 (five hundred billion Rupiah) in the last 12 (twelve) months.
13. To maintain the KPMM position for Custodian Bank or paid up capital for Non-bank Custodian Institution to be no less than the KPMM position or paid up capital under applicable provisions for 3 (three) consecutive months.

B. Reporting Obligation

1. Any Sub-Registry is required to submit reports to Bank Indonesia - Central Registry as follows.
 - a) Daily Report on information of Securities transaction settlements

containing ...

containing changes of Securities ownership registration among individual customers in a same Sub-Registry.

- b) Monthly Report on Securities Ownership Position on behalf of Sub-Registry individual customers as the example presented in Appendix 2.
 - c) Annual Report on Sub-Registry business plan for the following year containing, among other things, target volume of Securities Administration, service improvement program plan, and internal administration system development plan;
 - d) Report on changes of Management and/or Administrator;
 - e) Report on changes of status and/or types of customers holding Securities;
 - f) Report on supervision results of independent auditor concerning the security of scripless Securities registration system;
 - g) Audit report (photocopy) of authorized supervisor on Custodian concerning the security of scripless Securities registration system in the event of any absence of supervision by independent auditor within the concerned year; and
 - h) Other reports as requested by Bank Indonesia.
2. The reports as referred to in point 1 shall be forwarded to :
- Bank Indonesia - Central Registry
 Monetary Management Transaction Settlement Division
 Sjafruddin Prawiranegara Tower, 11th Floor
 Jl. M.H. Thamrin No. 2
 Jakarta 10350

with provisions as follows.

- a) The Daily Report as referred to in point 1.a) shall be transmitted through the BI-SSSS and/or other facilities on the same day as the date of change of individual ownership registration in a Sub-

Registry ...

Registry registration system;

Procedures of Daily Report submission shall refer to the *Guidelines for Transmission of Sub-Registry Reports through BI-SSSS* as presented in Appendix 3.

- b) Monthly Report shall be transmitted no later than 2 (two) business days after the end of each reported month by e-mail with address: Sub_Reg_BI-SSSS@bi.go.id.
- c) Annual Report constituting a report on Sub-Registry business plan for the following year shall be submitted no later than 1 (one) month after the end of each calendar year.
- d) Report on Change of Sub-Registry Management and/or Administrator shall be submitted no later than 7 (seven) business days after each change.
- e) Report on supervision results of independent auditor concerning the security of scripless Securities registration system shall be submitted no later than 1 (one) month since the date of the report.
- f) Photocopy of Audit Report of authorized supervisor on Custodian concerning the security of scripless Securities registration system shall be submitted no later than 1 (one) month since the date of the report.
- g) Report on changes of status and/or types of customers shall be submitted no later than 1 (one) business day after each change.
- h) Other reports shall be submitted as stipulated in a notification letter by Bank Indonesia.

C. Fulfillment of Requirements as Sub-Registry

Any Sub-Registry is required to maintain its fulfillment of the requirements as a Sub-Registry as referred to in point II, except point II.4 and point II.10.

V. SUPERVISION ...

V. SUPERVISION ON SUB-REGISTRY

1. Bank Indonesia has the authority to supervise Sub-Registry with a scope of supervision as follows.
 - a. supervision on the implementation of tasks as referred to in point IV.A ;
 - b. supervision on the reporting obligation as referred to in point IV.B;
 - c. supervision on the obligation to fulfill the requirements as Sub-Registry as referred to in point IV.C.
2. The supervision method as referred to in point 1 may be conducted by :
 - a. indirect supervision through reports submitted to Bank Indonesia; and
 - b. direct supervision by examining the Sub-Registry.
3. The supervision as referred to in point 2.b shall be executed at any time as necessary.
4. In supervising the Sub-Registry, Bank Indonesia may be in coordination with Custodian supervision authorities.
5. In effort of supervision, Sub-Registry is required to provide complete and reliable information as requested by Bank Indonesia.
6. In the event of any finding which needs further actions by Sub-Registry, Bank Indonesia shall submit the finding by letter and/or other facilities.
7. Based on supervision results, any Sub-Registry is required to take further actions on findings as follows.
 - a. Any Sub-Registry which has not fulfilled obligation and/or made incorrectness in implementing the task and/or reporting as referred to in point IV.A and point IV.B is required to :
 - 1) fulfill the reporting obligation with reliable data or make correction on the mistake with reliable data on Daily Report as referred to in point IV.B.1.a) no later than 2 (two) business days since the date of notification on finding by Bank Indonesia as referred to in point 6; and/or

2) fulfill ...

- 2) fulfill the obligation of implementation of the tasks as referred to in point IV.A.1 up to point IV.A.11 or fulfill the obligation of reporting with reliable data as referred to in point IV.B.1.b) up to point IV.B.1.h) no later than 5 (five) business days since the date of notification of finding by Bank Indonesia; and/or
 - 3) make correction on the mistake of report with reliable data on Monthly Report, report on changes of status and/or types of customers, and other reports as requested by Bank Indonesia, no later than 5 (five) business days since the date of notification of finding by Bank Indonesia.
- b. Any Sub-Registry which fails to meet requirements of minimum amount of Securities ownership registration at a monthly average of Rp500,000,000,000.00 (five hundred billion Rupiah) in the last 12 (twelve) months as referred to in point IV.A.12 and fulfillment of the requirements as a Sub-Registry as referred to in point IV.C related with the requirements as referred to in point II.6 up to point II.9 is required to take action plan in the efforts to meet the requirements, with provisions as follows.
- 1) the action plan shall be submitted to Bank Indonesia-Central Registry no later than 10 (ten) business days since the date of notification letter concerning the finding by Bank Indonesia.
 - 2) the action plan as referred to in point 1) shall be met within a time limit of fulfillment proposed by Sub-Registry no later than 3 (three) months since the date of the cover letter of Sub-Registry action plan, including if there is any change.

VI. SANCTIONS ON SUB-REGISTRY

A. Written warning

In the event of any failure to fulfill the obligation of further action of finding within the time limit as referred to in point V.7.a sanction shall be

imposed ...

imposed under the following procedure.

1. first written warning;
2. second written warning will be imposed in 7 (seven) business days since the date of the first written warning if a Sub-Registry fails to fulfill obligation;
3. third written warning will be imposed in 6 (six) business days since the date of the second written warning if a Sub-Registry fails to fulfill its obligation.

B. Abrogation of Approval as Sub-Registry

1. Approval as Custodian Bank and Non-bank Custodian Institution as Sub-Registry may be abrogated by Bank Indonesia if :
 - a. business license as Custodian is abrogated by Bapepam-LK.
 - b. KPMM position of Custodian Bank or paid up capital of Non-bank Custodian Institution is less than the requirements stipulated in applicable provisions for 3 (three) consecutive months;
 - c. Sub-Registry fails to meet its obligation in 5 (five) business days after the third written warning;
 - d. existence of a letter of decision or request from concerned supervising authorities to abrogate approval of Custodian Bank and Non-bank Custodian Institution as Sub-Registry;
 - e. existence of a final and binding bankruptcy decree of the court on Non-bank Custodian Institution;
 - f. Sub-Registry status as Participant is abrogated by the Operator;
 - g. existence of a written application of Sub-Registry as far as it has settled all obligation related to Securities Administration to customers, using the example of letter as presented in Appendix 4.
2. Bank Indonesia shall notify Sub-Registry of the abrogation as Sub-Registry by letter.

3. Any Sub-Registry which approval as a Sub-Registry is abrogated as referred to in point 1.a up to point 1.f. is required to settle the transfer of individual customer Securities ownership to other Sub-Registry designated by customers no later than 5 (five) business days after the date of notification of abrogation as Sub-Registry.
4. Bank Indonesia shall announce the abrogation of approval as Sub-Registry through the BI-SSSS and/or other information facilities.

VII. CONCLUDING PROVISIONS

By the enactment of this Circular Letter, Bank Indonesia Circular Letter Number 7/55/DPM dated December 6, 2005, concerning Procedures of Designation and Supervision on Sub-Registry shall be revoked and declared no longer valid.

Provisions in this Circular Letter shall come into force as of September 2, 2008.

For the public to be informed, it is ordered that this Bank Indonesia Circular Letter be promulgated in the Official Government Gazette of the Republic of Indonesia.

Please be informed accordingly.

BANK INDONESIA,

EDDY SULAEMAN YUSUF

DIRECTOR OF MONETARY MANAGEMENT

DPM